How To Interpret The Financial Phenomenon Of Family Firms In Socioemotional Wealth?

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Abstract

This study empirically tests the framework developed by Gómez-Mejía, Cruz, and Imperatore (2014) to family firm's financial reporting decisions (i.e., earnings management and voluntary disclosure). We posit that family firms with control-enhancing mechanisms (owned by the created families) give priority to the 'Family control' ('Family Identity') dimension. Using Taiwanese listed firms, we show that family firms with control-enhancing mechanisms are more (less) likely to engage in earnings management (voluntary disclosure), and non-acquired family firms are less (more) likely to engage in earnings management (voluntary disclosure). In addition, given the discretion characterized by family firms' financial reporting decisions, family firms with control-enhancing mechanisms (owned by the created families) are more (less) likely to engage in accrual-based earnings management than real earnings management, and more (less) likely to engage in forward-looking disclosure than historical information disclosure. Our results are consistent with the framework of Gómez-Mejía et al. (2014) and suggest that families would use family socioemotional wealth (SEW) as a reference point for their financial reporting decisions.

Keywords: control-enhancing mechanism, family firms, financial reporting decisions, non-acquired family firm, socioemotional emotion wealth.